# Dynamic or Boring: The Theory of Stable Business Relationships [1]

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## Abstract

How firms *within* a business relationship adapt to their situation determines the functional capability of a relationship. Theory suggests four types of adaptations to the degree of differentiated relationship value. Dynamic adaptations include High Vitality and Opportunistic Relationship types. Static adaptations include Habitual Relationships and Repetitive Relationships—perhaps seen as "boring" for lack of notable changes. Viewed in the context of uncertainty and levels of adaptation, Responsive Stability and Passive Stability are functional, but Inefficient Stability and Eroding Stability are not. Breaking down uncertainty into other-firm and market sources, four types of adaptations are identified: Complex, Routinized, Market Focused, and Other Focused. Finally, the paper identifies the theoretical underpinnings future research.

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## Abstract

How firms *within* a business relationship adapt to their situation determines the functional capability of a relationship. Theory suggests four types of adaptations to the degree of differentiated relationship value. Dynamic adaptations include High Vitality and Opportunistic Relationship types. Static adaptations include Habitual Relationships and Repetitive Relationships—perhaps seen as "boring" for lack of notable changes. Viewed in the context of uncertainty and levels of adaptation, Responsive Stability and Passive Stability are functional, but Inefficient Stability and Eroding Stability are not. Breaking down uncertainty into other-firm and market sources, four types of adaptations are identified: Complex, Routinized, Market Focused, and Other Focused. Finally, the paper identifies the theoretical underpinnings future research.


## Introduction

Dunbar claims an individual can maintain stable relationships with about 150 other individuals, and this number can be explained by certain human limitations (Dunbar (1992, 1993; Gladwell 2000). Marketing scholars do not discuss whether organizations are limited in the number of stable relationships they can manage—in some cases they probably are—but there is considerable interest, indeed, in maintaining stability with customers (e.g., Ganesh et al. 2000; Gustafsson et al. 2005) as well as suppliers (Håkansson 1982). While a firm may have a very large number of business relationships, our paper identifies important differences among stable relationships that are not sufficiently conceptualized by the theoretical continuum that ranges from relational exchange, a deeply involving form of interdependence, to pure transactions, characterized by a short interaction with no past and no future (Dwyer et al. 1987).

Business relationships are often long term and stable; however, change, particularly adaptations that keep a relationship vibrant, most certainly occurs (Halinen et al. 1999 p.784). Business relationships exist and develop in a variety of environments, some being highly dynamic and even turbulent. And as everyone knows from experience, not all relationships are the same. Both marketers and purchasing managers evaluate supply relationships and prefer reliable, ongoing exchange relationships in many situations; an agreeable alternative may be a stable series of transactions, but without the commitment that goes with long term relationships (Morgan and Hunt 1994).

Where the term "stable business relationships" refers to the steadiness or constancy of exchange over time, we believe significant theoretical development is warranted that stands apart from any notion of loyalty. To our surprise, the marketing literature says little about how stable buyer-seller relationships work, why they remain stable over time, and what forces actually cause or influence stability. Here lies our problem of interest. While a few researchers have discussed stability (e.g., Freytag and Ritter 2005), authors of over 166 papers have discussed instability and its consequence, relationship dissolution (Gremler 2004). Further, we see opportunity for improving understanding of stable relationship exchange marked either by uneventful, routinized processes, termed "static" relationships and perhaps viewed by scholars as boring, or flexible, collaborative processes, termed "dynamic," that foster needed adaptations

to a changing market situation. Current theoretical discussion does not recognize that exchange between the firms often occurs as if buyers and sellers are interacting in a spot market with no long term commitments—nevertheless, they repeat their exchanges over time despite the lack of future commitment, the theoretical hallmark of relationship (Morgan and Hunt 1994). Also, scholars have overlooked stable relationships that persist over time without a shred of dynamism for long periods of time, as might be the relationship between an office building management company and a cleaning service vendor.

In this paper we identify four types of exchange that appears stable, but in different ways. In each case the relationship persists over time, although for different reasons and with different implications. Although this may reflect a steady-state, it may also reflect a relationship that, when external forces press on the relationship, demonstrate vitality as processes within the relationship cause adjustments that maintain constancy in exchange. Stable relationships can be counted on to meet expectations for ongoing exchange of resources as time passes.

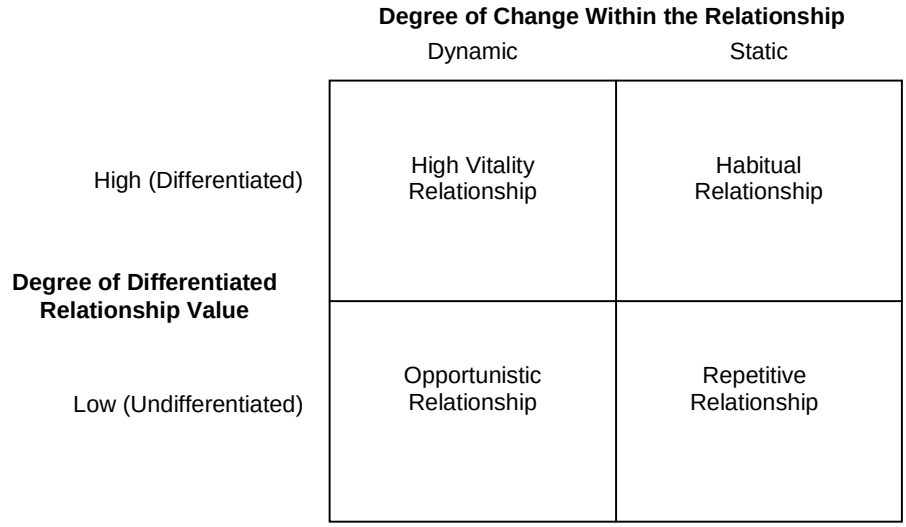
Based on this problem scope, we will discuss a conceptual foundation for studying and understanding stable buyer-seller relationships between businesses. We have three objectives. First, we identify different types of stable relationships and explain how these relationships create successful adaptations to relational uncertainty for partner firms. Second, we discuss two forces – adaptive effort within the relationship and level of uncertainty – that define important characteristics of stable relationships. Third, we define the locus of turbulence that impacts relational stability. By combining these three new perspectives on stability, we offer a solid platform for gaining insights and conducting investigations into relational stability and the processes associated with adaptations to partners and the network environment.

## Four Types of Relationship Stability

Levitt (1986) offered the insight that selling is like courtship, the sale is like the wedding, and almost all important interaction takes place after the wedding occurs. Unfortunately, Levitt did not discuss the interesting differences among business "marriages." However, there are at least four different types of stable relationships, and one can even imagine interpersonal marriages fitting this conceptualization. The *high vitality relationship* and the *opportunistic relationship* are two stable relationship types associated with significant change in the relationship, although stability is achieved in very different ways (Figure 1). The *repetitive relationship* and the *habitual relationship* are static with respect to notable adaptations.

High vitality and repetitive habitual types have in common one key factor. The actors perceive that the relationship offers differential relationship benefits, which causes them to value the relationship and the partner more than the alternatives (Thibaut and Kelley 1959). However, the high vitality relationship must adapt to maintain its vitality in the face of change. For a longer period of time, the habitual relationship, like long-time marriage partners, requires few such adaptations. By contrast, undifferentiated relationship benefits mean that partners can be easily replaced, depending on switching costs, which is the case for opportunistic and repetitive relationship types. In this situation, an opportunistic relationship is one where one or both partners take advantage of the situation and change the level of business they have with any given partner. They may exhibit other forms of opportunism as well (Wathne and Heide 2000), thus inducing adaptations. A repetitive relationship, by comparison, is like a routinized series of discrete transactions. Some elaboration of these concepts is warranted.

Figure 1
Four Types of Relationship Stability




The high vitality relationship is lively, energetic, strong, and enduring. Adaptations and investments are made in anticipation of continuing the relationship. Freytag and Ritter (2005) say the "dynamic paradox" is that "stability and change co-exist" (p. 646). If a firm sees that a relationship with a particular actor is stable, it may be more inclined to make adaptations and investments in that relationship, thus providing a virtuous circle of increasing investments, increasing returns, and new investments. Such relationships also provide the opportunity for firms to explore and find new elements and new areas in which the relationship can bring value to them. Realizing these opportunities then requires further investments and adaptations from the partners.

An opportunistic relationship involves changing the terms of the relationship, depending on the merits of the transaction at hand (Kilduff, Tsai, and Hanke 2006; Wathne and Heide 2000). A supplier will have an "always a share" relationship with the customer if transactions are recurring (Jackson 1985), but the supplier's share of business may change regularly. If transactions involve separate, indivisible products, then a supplier may experience a series of wins and losses over time. In this case, the opportunistic relationship is intermittent. Opportunism implies taking advantage of the moment, as when a buyer divides business among several suppliers based on price concessions. Actors in opportunistic relationships appear to prefer to avoid investing in establishing and maintaining future-oriented relationships and, depending on their requirements, may benefit from the flexibility of transaction based exchanges that avoid long term commitments. Though the partner matters less than, say, price, in such relationships, exchanges with the same partner are likely to reoccur, unlike the ideal-type single, discrete transaction theorized by Dwyer et al. (1987).

The habitual relationship is highly routinized and represents an ideal business relationship when the primary task environment changes little, but the value provided by the partner matters a good deal. Ulaga and Eggert (2006) find that benefits matter more than costs. Also, service

support and personal interaction are the core differentiators. A supplier's know-how and assisting a buyer's time to market matter too. The benefits of relationship are habit inducing. It will take an intervention from outside the relationship or significant change in a partner to break the habitual relationship and stimulate adjustments or a change in partners.

The repetitive relationship may provide perfectly reasonable exchange because there are minimal forces affecting the interaction that cause change. The relationship is routinized (Robinson et al. 1967). The more the repetitions are alike, the easier it is for the participants to persist in the relationship if all else is equal. Such relationships are valued. Federal Express and AT&T engage in repetitive relationships, for example, although they would surely claim that their services provide differential value. However, differentiated value and the cost of switching depend on a partner's perceptions and goals (Thibaut and Kelley 1967).

**The Virtues of a Static Relationship**

Various scholars claim the importance of firms being agile and able to change rapidly in response to changes in their environment (e.g., Achrol and Kotler 1999; Christopher 2000, Day and Montgomery 1999). This strong focus on the virtues of change and dynamism has made static habitual and repetitive relationships seem backward, without initiative and largely lackluster—in short, boring. However, there are a number of areas where such stability is desirable if not absolutely necessary. Specifically, nonstrategic purchases, such as office cleaning services, do not require frequent change in the details of the relationship. A repetitive relationship is preferred if the services are executed well and the customer pays on time. Both repetitive and habitual relationships provide value in such situations compared to opportunistic, arms-length relationships if lower transaction costs and higher convenience are achieved (Kennedy and Deeter-Schmelz 2001). While there may very well be adaptations early in the relationship, the relationship then becomes static (Beverland 2005), even in the case of strategic relationships (Christopher 2000). In the case of low differentiation, a repetitive relationship may continue simply because there is no incentive to switch partners.

Agency theory suggests the goals of agents may affect interactions (Mukherji et al. 2007). For social or other reasons, an agent may continue purchasing from a supplier when it would actually be economically wiser and more in line with the interests of the firm to look for an alternative supplier. Thus, an agent may see a relationship as differentiated despite the lack of differentiation with respect to the firm's interests. This suggests an agent may drive a habitual relationship.

Static relationships, in fact, simplify decision making and avoid the waste of resources in seeking alternative solutions (Robinson et al. 1967). However, such stability is unfavorable if alternatives exist that are sufficiently more valuable that they can pay back the cost of seeking them out in addition to some gain. Thus, a habitual relationship and, certainly, a repetitive relationship may dissolve when a buyer discovers an alternative that appears more attractive based on cost or product differentiation (Thibaut and Kelley 1959).

**How does stability relate to change?**

High vitality relationships are stable but they are not static (Halinen et al. 1999 p. 784). Such business relationships need actions by actors within the relationship to maintain stability. Stability is not the absence of change, just like change does not equal instability (Gadde and Håkansson 1992). As interactions occur within a business relationship, the relationship itself will change either gradually or sometimes more radically. Opportunistic relationships, especially

when exchange is intermittent but reoccurring, experience a different type of change because the identity of the partner matters less. Adaptations in this case occur on a transaction by transaction basis with little forward planning or collaboration. Static relationships represent exchange that was adapted to the situation and now requires no change for the time being.

Change within the relationship drives stability of high vitality relationships (Easton and Araujo 1999; Gadde and Håkansson 1992). In order to create a foundation or a context in which change can come about, firms need an element of stability. Stability is increased by adjusting, adapting, or changing as the situation may require it. Actors in business relationships act towards increasing their control over resources to provide the stability necessary to provide profits (Gadde and Håkansson 1992). As Håkansson and Snehota note, "The motive for change can thus be the struggle to find stable arrangements and to experiment with workable solutions; the effect, paradoxically, is that change is generated…" (1995, p.272)

Stability and change are not opposing or mutually exclusive concepts (cf. Kim et al. 2006), but concepts that are contingent upon one another. It is in this light that we need to understand stability in business relationships.

**Uncertainty and Relationship Stability**

Uncertainty refers to the information available for decision making (Achrol and Stern 1988). Uncertainty makes it difficult to assess the hazards associated with outcome risks. Because relationship agreements extend exchange into an unpredictable future, some degree of uncertainty and risk are inevitable (Dwyer et al. 1987).

Firms may be uncertain about a number of things. Håkansson et al. identify three different types of uncertainty (1976): need uncertainty (What is my problem and how do I solve it?), market uncertainty (What are the supply alternatives and how good are the suppliers?), and transaction uncertainty (Will this deal work out?). To these Hedaa (1993) adds two more: technical uncertainty (Have I bet on the right technology?) and acceptance uncertainty (Will my role partners value the outcome of my value chain?).

With need uncertainty, a buyer may not be certain about which product to buy or in what quantity. Through interactions with prospective suppliers, as is the case in opportunistic relationships, this uncertainty may be increased or decreased, depending on the information exchanged. In high vitality relationships, actors collaborate to reduce this uncertainty.

Market uncertainty refers to buyer concerns about the available market for alternative suppliers. The more suppliers are differentiated and the more there are, the higher the perceived level of uncertainty. Once an attractive partner is found and initial adaptations are achieved, a high vitality relationship will respond to new market uncertainties, while a habitual relationship will simply maintain the status quo.

Transaction uncertainty is perceived when the seller is unsure of the feasibility of a planned exchange, such as the uncertainty of being able to get a product or service in time or of the supplier's ability and intentions of fulfilling the order. Many factors may influence this uncertainty: cultural differences, experience with the partner, level of standardization, or new technology. Thus, trust building early in a relationship plays an important role in the decision to make an exchange commitment (Morgan and Hunt 1994), and trust continues to play a role in the deep structure of relationship stability (Gersick's (1991).

Technical uncertainty occurs when the buyer does not know if a product is going to perform as expected (Hedaa 1993). Product concerns include poor performance, problems in the specification, application issues, lack of product information, and wrong product information. When a buyer must make a long-term commitment to a particular technology, technical uncertainty is partially resolved when selecting a supplier, at which point a high vitality relationship addresses unanticipated problems. If a buyer must commit nontransferable assets, then an opportunistic relationship is not an option.

Finally, acceptance uncertainty occurs when the product or solution is not accepted by the buyer's organization or is regarded as a poor choice. All else equal, to avoid this uncertainty, actors may find a repetitive or habitual relationship a good solution in uneventful exchange situations and a high vitality relationship suitable when trust mitigates acceptance uncertainty (Morgan and Hunt 1994).

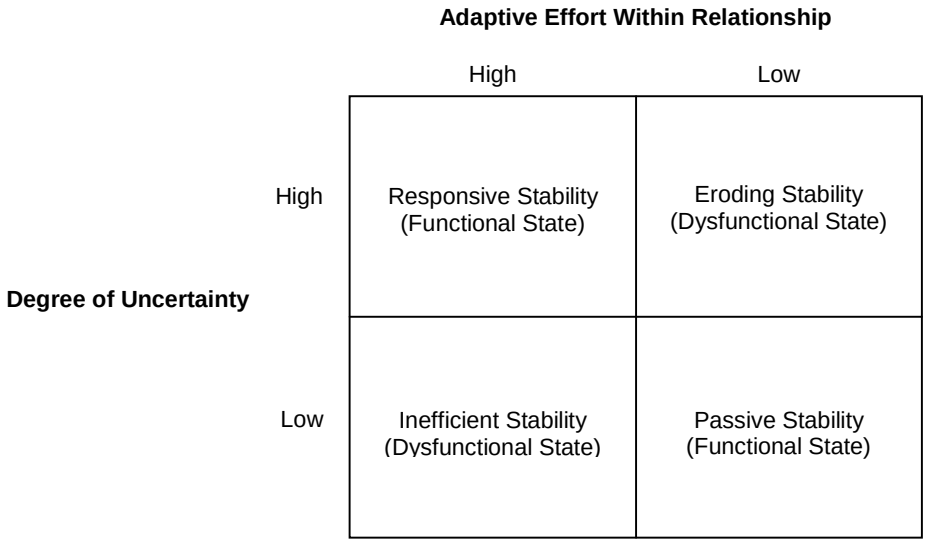
In summary, high vitality relationships accommodate uncertainty because mutual understanding is highest in these relationships thanks to a history of efforts—thus, practice—aimed at adapting to uncertainties in the primary task environment. Firms may be more inclined to accept new products with new technology from existing suppliers than from new suppliers they have no experience with. Also, firms may engage in joint innovation programs with very unpredictable outcomes when they have a high vitality relationship. The same applies to supplier acceptance of buyer innovations (Corsten and Kumar 2005). The other three types of relationship do not share this characteristic.

## Functional and Dysfunctional Types of Stability

The more markets and actor-needs are turbulent, the more uncertainty about desired outcomes increases. The degree of uncertainty affecting a relationship and the level of adaptive effort within the relationship causes two forms of functionally capable stability and two forms of dysfunctional stability. Dysfunctional stability is the consequence of mistakes that actors make when their adaptations within the relationship do not fit the situation. To understand this, we note that the payoff from efforts to adapt a relationship come when uncertainty is present with respect to needed resources (Dwyer et al. 1987). Accordingly, a high degree of uncertainty matched by a high level of adaptive effort produces responsive stability (Figure 2), which is functional. Low levels of both these factors produce passive stability, which is also functional. However, eroding stability and inefficient stability are dysfunctional forms of stability that occur when adaptive efforts do not match the true level of uncertainty experienced.

High adaptive efforts are suitable in situations where uncertainty is high. Thus, responsive stability provides continuity in exchange marked by changes in the actors, processes, and resources that define their connection. The actors experience continuity in their ability to obtain needed resources and coordinate important processes. However, high adaptive effort in combination with low uncertainty wastes resources; accordingly, we call this inefficient stability. The findings of Andrabi et al. (2006) in a tractor industry study indicate precisely this outcome when suppliers make efforts to specialize to the needs of a particular customer and then receive *less* business from that customer than less adaptive suppliers. Inefficient stability increases the costs of exchange.

Figure 2
Functional and Dysfunctional States of Relationships




Low adaptive efforts combined with low uncertainty create passive stability, which has functional capability but is not proactive. The actors make adaptations when necessary. However, if uncertainty is high, low adaptive effort causes relational stability to erode over time; thus, we use the term eroding stability. What may be static stability in the short term eventually becomes something else as a result of erosion; hence, eroding stability is dysfunctional. Erosion occurs because the actors are not responsive to the requirements of their uncertain environment. They fail to create the necessary interactive processes that promote adaptation that assures desired outcomes. Erosion may be observed, ultimately, as conflict and relationship dissolution (Dwyer et al. 1987). In the long term, erosion is a fundamental aspect of all business relationships, but especially those that appear to be static. Business relationships degrade over time; that is they change as processes become outdated, norms become less suited to new aspects of the instrumental requirements of exchange, and the like (Thorelli 1986). While erosion occurs in all four cells of Figure 2, it is acute when the degree of uncertainty is high and efforts to adapt are low. High vitality relationships are distinguished by adaptive input aimed at sustaining the benefits from exchange. Opportunistic relationships readjust every time actors undertake the contracting process to initiate exchange. In passive stability actors adapt if necessary.

## Types of Adaptations as Responses to Market and Actor Turbulence

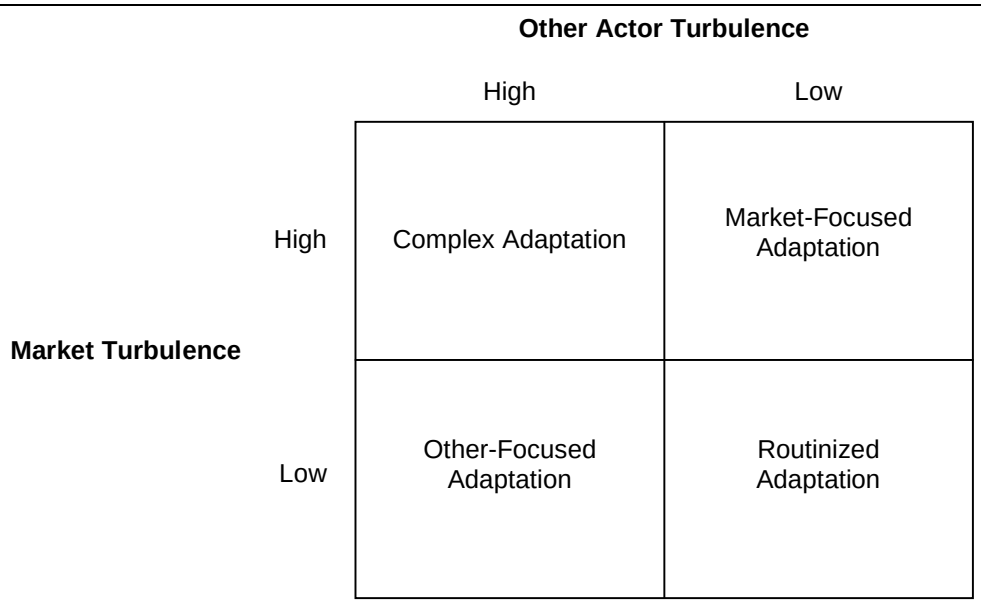
Next we consider the sources of turbulence within a firm's primary task environment that influence an actor to seek adaptations that will help the relationship fit the situation. Turbulence is the irregular change in markets or relationship partners that increases uncertainty. Two theoretical principles underlie Figure 3. First, an actor must obtain essential resources that are available only through participation in a market (Pfeffer and Salancik's 1978). Resource dependency motivates a firm to find ways to secure key resources despite turbulence in the market. Second, these resources are embedded in a social network (Granovetter 1985,). The

embedded nature of resources means that a firm must also deal with turbulence in particular linkages, including turbulence stemming from agents and the processes they create.

**The Object of Adaptation: Other Actor or Market**

Network theory as applied to buyer-seller relationships (e.g., Anderson et al. 1994; Achrol and Kotler 1999) explains the basic motives and context for creating stable relationships. In network theory, a firm uses or transforms certain resources by means of particular processes or activities. To assure the availability of resources and gain assistance in some of its processes, a firm necessarily links to other firms, which forms a network of connected linkages or relationships.

Figure 3
Types of Buyer-Seller Adaptations to Market and Actor Turbulence




A firm's primary task environment equates to the segment of a much larger network. Relevant markets form part of this primary task environment. This boundary specification is useful because it says that the important forces related to stability in buyer or seller relationships will be found within a firm's primary task environment. There are influences outside the primary task environment, but this external environment is limited to certain influences that are deemed immediately relevant, such as aspects of law that constrain or create opportunities germane to a firm's operations. Managers seek reliable access to needed resources, so they seek stability in the primary task environment—the immediate network and, in particular, connections to particular partners (Anderson et al. 1994).

A firm seeks stability in relationships that provide it with resources contributing to operational advantages and efficiencies. Pfeffer and Salancik (1978) suggest that uncertainty about access to resources and the costs and other barriers to securing resources motivates a firm's behavior and efforts directed toward adaptations that help it survive and even flourish. Uncertainty derives from changes in the environment—turbulence—that make it unpredictable. Turbulence

is not uncertainty, but a cause of uncertainty. Cameron, Kim, and Whetten (1987) reviewed the conceptual underpinning of turbulence and clarified the construct, finding that it is a clear cause of organization decline.

There are two major kinds of turbulence. Market turbulence derives from changes in demand, supply, and other factors. Technological change, identified previously as a source of uncertainty, is one important cause of market turbulence (Bower and Christensen 1995; Christensen and Overdorf 2000; Christensen 1997; Tushman and Anderson 1986), but there are other causes as well. The second source, other-actor caused turbulence, refers to uncertainty stemming from a relationship with a supplying firm or a customer firm. Turmoil within other's organization may derive from failure to adapt to market uncertainties, perhaps due to lack of suitable competencies. In Figure 3, we identify both market and actor turbulence as causes of uncertainty in the primary task environment.

**Types of Adaptations**

Figure 3 shows the joint effects of market and other actor turbulence. We propose that an actor can routinize a relationship when turbulence from both the market and other actor is low. An interesting research question is whether firms in low turbulence relationships become structurally less capable of adaptation when it becomes necessary (cf. Hannan and Freeman 1984). Complex adaptations are required when market and actor turbulence is high.

In the remaining two cells of Figure 3, adaptations are either market-specific or actor-specific (Dwyer et al. 1987; Johanson et al. 1991; Macneil 1980). Relationships, not legal contracts, create the conditions necessary for guiding an exchange process across the bumpy road of mistakes, late deliveries, changing expectations, unfulfilled expectations, and a host of other sources of turbulence that happen in supply relationships. Actor-specific adaptations are changes are likely to be influenced by asymmetrical power (Salancik and Pfeffer 1978).

There has been considerable work on the nature of relationship adaptations (e.g., Heide and John 1990; John 1984; Noordewier et al. 1990), but not using this typology. Five subprocesses have received considerable attention in connection with investigations of relationship development (e.g., Cannon and Perreault 1999): attraction, communication and bargaining, power and justice, norm development, and expectations development (Dwyer et al. 1987). However, researchers have neglected the role of these processes in adaptations similar to those suggested in Figure 3, although there are exceptions (Cannon and Homburg 2001).

At the interaction level, one example of other actor turbulence is change brought about when one or more individuals who are instrumental to the business relationship leave the firm, a common occurrence in high-mobility societies, like the U.S. Stable relationships sometimes depend more on the social ties between individuals that orchestrate relational exchange between companies than the actual goods and services that are exchanged (Bendapudi and Leone 2002). Agents leave their employers for many different reasons. A booming economy and job market may encourage an individual to find a better job. An employer may transfer an agent. Illness, retirement, a spouse's transfer, and many other individual circumstances cause job changes. Yet relational exchange may remain stable. Bendapudi and Leone (2002) identify four mitigating factors: rotating individuals through a key contact position use of teams to forge contacts, creating multiple contacts, possibly at different levels of the organization, and the firm's image. Indeed, a role partner's reputation or image--that is, their brand, not surprisingly can offer an important reason to keep a relationship when a key contact leaves the picture. Bendapudi and Leone (2002) suggest that the mitigating factors are moderated by such

considerations as the relative importance of the departing key contact, the extent to which a key contact provides information that facilitates insertion of a new key contact, and efforts by a key contact to leave the relationship between companies in good standing versus to undermine that very relationship.

Firms can take a proactive stance with respect to adapting to changes in social bonds. For example, a firm can provide technology that supports the accumulation and accessibility of information about a contact. Also, a firm can create organizational norms that encourage processes and activities in support of facilitating changes in role partners while maintaining a firm to firm relationship.

## Research Questions

In this section we review theory that, in combination with Figures 1-3, suggests points of departure for future research. The references in Figure 4 summarize theory and empirical studies for key ideas underlying relationship stability as discussed in this article.

### Resource Dependence and Power

The relative distribution of desired resources between partners determines their relative dependence (Emerson 1962), and this applies across a primary task environment (Salancik and Pfeffer 1978). Firm behavior is conditioned on this distribution of resources (Casciaro and Piskorski 2005). If you know how dependent the buyer is on the seller and how dependent the seller is on the buyer, then you can predict power—essentially, behavioral control—in a relationship. Power theory does not contradict marketing theory that emphasizes commitment and interaction as the core of relationships (e.g., Dwyer et al. 1987; Håkansson 1982; Morgan and Hunt 1994). Rather, it sheds light on the effects of those commitments and the likely degree of balance in interactions.

Figure 3 assumes that relationships are created in contexts where dependence is mutual and perhaps balanced. However, when dependencies are asymmetric, the interactions that lead to adaptations and the very adaptations themselves may reflect the relative power of the actors. Mutual dependence creates a set of opportunities that might be exploited by long-term cooperation and commitments that are partner specific. However, this is not the case when one actor is relatively independent of the other. What is the nature of stability in the case of dependence asymmetries?

When a relationship exists between actors with unequal dependence, one party has more bargaining power and less interest in the exchange. An interesting path for investigation concerns how actor and other actor perceive and adapt the relationship situation. Perhaps the more powerful actor envisions an opportunistic relationship (Figure 1) as more desirable, while the weaker party sees a high vitality relationship as preferable. We propose that such asymmetry in preferred relationship types suggests a fundamental cause for conflict and unsatisfactory adaptations unless there are mitigating factors (Casciaro and Piskorski 2005; Smith et al. 1999). In short, high independence encourages short-term thinking, while high dependence encourages long-term thinking.

Figure 4
Theoretical Underpinnings of the Stability of Relationships

| Concepts | Selected References |
|---|---|
| Differentiation of actor, relationship, and network levels of analysis. | Four levels of effects are (1) in the relationship, (2) on the relationship, (3) on the relationship portfolio, and (4) within the network (Ford and McDowell 1999). Figures 1-3 concern effects on the relationship (level 2). Effects in one level affect the other levels. |
| Classification of relationships. | Beyond the classic transaction – relational exchange continuum (Dwyer et al. 1987), there are many typologies (e.g., Hallikas et al. 2005; Olsen and Ellram 1997; Webster 1992). Leek et al. (2006) review portfolio models that classify relationships, and they report findings. |
| Actors within a relationship must make adaptations to achieve better functional capability. | A relationship's future is unpredictable, so firms must adapt their agreements (Dwyer et al. 1987). Gersick's (1991) review identifies forces underlying the apparent lack of change in static relationships and the stabilizing deep structure that allows turbulence in ongoing relationships. Early adjustments to new partners lead to a period of inertia. Collaboration and relationship learning reduces risk (Hallikas et al. 2005). Mukherji et al. (2007) offer a unique perspective on social aspects of adaptations, particularly the role of shared goals. |
| Adaptations occur at different rates. | Hannan and Freeman (1984) review theory on the timing and causes of organizational change and the different rates of change within organizations. Becoming overly specialized ("lean") can reduce flexibility Christopher (2000). Once adaptations take place, relationships have a tendency to become static (Beverland 2005). |
| Some adaptations are concerned primarily with risk reduction. | Hallikas et al. (2005) report findings on types of risk and coping mechanisms. There are many perspectives and much data on this (e.g., Christopher 2000; Noordewier et al. 1990; Pfeffer and Salancik 1978; Sheng 2006; Tushman and Andersen 1986). There are different types of uncertainty relevant to buyer-seller relationships (Håkansson et al. 1976). |
| Firms tend to have long standing relationships. | Håkansson (1982) reports on the seminal multinational study suggesting that ongoing relationships are the rule, not the exception, in many markets. This study challenged the view that opportunistic behavior and adversarial relationships are the norm. |
| Opportunistic behavior by firms. | Wathne and Heide (2000) provide thirteen examples of opportunism. John (1984) identifies antecedents of opportunism. Specialized suppliers with higher transaction specific investments may have a "relationship surplus" but are found to receive a *smaller* share of business (Andrabi et al. 2006). Cooperative relationships in a franchise system evidence opportunism (Gassenheimer et al. 1996). |
| Static relationships have few adaptations but are successful. | In the telecommunications industry, for example, long relationships show few adaptations even as the rewards are differentiated and substantial (Brennan and Turnbull 1999, case studies; cf. Ford 1980). |
| A key factor in exchange is differentiated relationship value. | Firms in relational exchange seek control over resources that contribute to their unique competitive standing (Pfeffer and Salancik 1978). Relationship value includes economic, behavioral, and strategic elements (Ford and McDowell 1999). Value is a function of benefits as well as investments (Hannan and Freeman 1984). |
| Various rewards are obtained from exchange. | The seminal work on cost-benefit analysis is Thibaut and Kelley (1959). One theory stream considers the lifetime value of a customer (e.g., Johnson and Selnes 2004),Olsen and Ellram (1997) discuss supplier attractiveness. Rewards of relationship include cost reduction (Cannon and Homburg 2001). |
| Firms are more successful when market focused if the market helps the firm innovative and remain competitive. | Miles and Snow (1992) find that firms compete more successfully if they remain a market participant and do not specialize in a single or small number of partners. For example, Nike's suppliers are encouraged to participate in markets outside their supply network to remain competitive and become exposed to innovations (Miles and Snow 1992). Also, this is supported in a tractor study where specialized suppliers provided lower quality over time (Andrabi et al. 2006). |
| Adaptations also focus on accommodating a partner. | Resource dependence theory encompasses the unequal distribution of power (Pfeffer and Salancik 1978). For example, small firms are obliged to make difficult adaptations in response to the wants of large firms (Brennan and Turnbull 1999). |

In a similar way, large firms may are more independent and may exhibit more short-term thinking—for example, relying more on website auctions. Pfeffer and Salancik (1978) suggest that in concentrated industries, uncertainty is less because the competitors are large. Here, the suppliers have sufficient resources to buffer them against financial uncertainties and against risks associated with market and product turbulence. Furthermore, suppliers in concentrated industries can achieve competitive stability through tacit coordination. Large firms are less motivated to achieve stability through their relationships with firms that are downstream or upstream in the value chain.

Thus we look to primary task markets in moderately concentrated industries to find forces of financial and technological risk that motivate firms to more actively seek methods for counteracting uncertainty (Pfeffer and Salancik 1978). Interfirm influence is greater. In this situation, we propose that, rather than transaction structures, firms seek high vitality relationships with their network partners to facilitate information exchange and to stabilize processes and access to resources that might be jeopardized by market and product turbulence. While buyer-seller stability still depends on other factors in the relationship, moderate industry concentration causes firms to seek stable relationships as a counterpoint to greater threat in the competitive landscape. In the most extreme cases of technological risk and financial exposure, firms will go beyond market contracting and form alliances or joint ventures to exploit emerging market or technological opportunities. However, in concentrated industries, outright mergers and acquisitions are more likely as we have seen in the competition between Yahoo and Google for YouTube, which Google won. While joint ventures spread risk, acquisitions garner control over strategic resources that might otherwise fall into the hands of a competitor.

**Relationship Norms**

Macaulay (1992) studied the role played by legal contracts and social connections in business relationships and identified a number of reasons why legal contracts played a surprisingly small role in many relationships. One aspect is particularly germane to our discussion. According to Macaulay (1992), two basic norms of behavior in business exert tremendous influence over behavior in business relationships. First, "commitments are to be honored in almost all situations; one does not welsh on a deal." And second, "one ought to produce a good product and stand behind it" (p. 275). For these norms to influence relationships, information about a supplier's behavior must be available in the industry. Failures must be punished, while successes rewarded; that is, a good reputation must matter. This applies to buyers and sellers alike. Accordingly, we see primary task norms as mediating variables when actors attempt the different types of adaptations. If it were not for such norms, legal contracts would play a much larger role in enforcing business commitments (Macaulay 1992; Dwyer et al. 1987).

Beverland (2005) shows some empirical support for these ideas. His work suggests that, while norms may stabilize a relationship, loose ties outside primary relationships are necessary to ensure that stable relationships do not become stagnant relationships that are unresponsive to changes in customer demand (cf., Heide and John 1992).

**Political Influences**

Other forces on the primary task environment that contribute to relationship stability or instability derive from political decisions, legal action, and social sanctions (Pfeffer and Salancik 1978).

Consider Airbus. In 1970 a combination of French, German, and, later, Spanish and UK companies was created to manufacture commercial air transportation in competition with the well-established and very large American counterparts (Rossant 2000). In this example huge government investment covers the technological and financial risk associated with designing and manufacturing large aircraft—but the cost of this investment is political control over relationship structures. If this investment and political intervention leads to market success, the politically influenced relationships are likely to persist. However, failure to achieve market acceptance of politically influenced production ultimately leads to turbulence in the primary task environment. Paradoxically, participants in a government-sponsored network have somewhat less incentive to coordinate because the governmental entity has buffered them against certain technological and financial risks. We propose that this politically induced stability may be less adaptive than high vitality relationships (Figure 1) that achieve dynamic stability (Figure 2) in the face of complex adaptations (Figure 3).

Nongovernmental entities also influence buyer-seller relationships. Associations, coalitions, and cartels promote stability between firms, although not for all the same reasons. These affiliations enable suppliers greater control over relationships with customers by virtue of collaboration on industry issues. For example, buying associations confer relational stability by reducing certain types of uncertainty. Coordination like this at the industry level is a structural force that increases stability but perhaps reduces motivation to achieve interfirm adaptations. Even if firms are motivated to coordinate, they may discover that an industry level association is more effective at setting the stage for stability. We see this particularly in the case of standards setting. The telecommunications industry would not exist as it does today without industry level decisions about technology standards. These decisions enable suppliers at different levels of the value chain to coordinate their efforts in creating interconnected processes that meet customer expectations for quality, cost, and function. Associations, coalitions, and cartels can impose order on buyer-seller relationships, making them more stable.

**Technological Processes and Stability**

Although theory summarized previously suggests that technological change causes technological uncertainty, this is not always the case. Technological change has been shown to foster relational *stability* in the case of sustaining innovations and create turbulence in the environment and *instability* in buyer seller relationships when innovations are disruptive (Bower and Christensen 1995; Christensen and Overdorf 2000; Christensen 1997; Tushman and Anderson 1986). Disruptive innovations satisfy the demand of customers that are overshot by the up-market solutions of incumbent suppliers. Because such customers initially represent a small and unattractive market to incumbent suppliers, they are not motivated to develop the process and product technologies necessary to address these customers. Christensen (1997) calls this asymmetric motivation, and its consequence is that the newcomers eventually challenge and surpass the incumbents that fall behind in developing the new technology. Such turbulence should provide an ideal intervention for studying the relational stability and adaptations discussed here and summarized in our figures. For example, Wal-Mart employed innovations in demand and inventory tracking, and Wal-Mart located near underserved customers located in medium sized rural towns. While Sears presumably had the same access to information technology and underserved customers that Wal-Mart did, Sears was not motivated to pursue a business model that contradicted its proven path to profits. While Sears tried to stabilize its relationship with consumers and, of course, its supply network by fleeing up market to the “Softer Side of Sears,” Wal-Mart’s disruptive IT innovation proved too powerful for even the substantial Sears empire to fully resist. Sears and its network partners were forced to

change. We suggest that disruptive innovations offer a logical starting point for studies aimed at understanding not just failed adaptations, but the adaptations of disrupting attackers.

Technological innovations are more often incremental and tend to sustain incumbents by preserving the viability of knowledge and processes that constitute tying resources (Tushman and Anderson 1986). For this reason, technological change tends to support the buyer-seller relationships of incumbents. In this instance we know that the sustaining innovation requires firms in the primary task environment to make numerous adaptations—all in the context of dynamically stable relationships. In this case the sustaining innovations offer an excellent point of departure for learning more about the mechanics of high vitality relationships, dynamic stability, and the influence of differing degrees of interdependence as the incumbents gain strength and market position from a sustaining innovation.

## Summary

Relationship stability is important because buyers and sellers must reduce the uncertainty associated with obtaining essential resources that give competitive advantage and assure survival. The paper begins by presenting a more precise perspective on stability that envisions four specific types of relational stability (Figure 1). A clear distinction between dynamic stability and boring stability suggests two very different and interesting paths for investigation of stable relationships. Moreover, prevailing theory is rattled by conceptualizing opportunistic relationships, a form of exchange where sequential *transactions* take place with very definite relationship like characteristics. As Håkansson (1982) established a long time ago, the more surprising aspect of business markets is the stability of exchange relationships. This paper gives a broader map to this concept of relational stability.

The key to unlocking insights to stable relationships, boring or dynamic, is a better understanding of adaptations that occur as actors interact for the purpose of securing access to needed resources. Figure 2 proposes that adaptive efforts can have very different outcomes, depending on the situation. When we add consideration of the locus of uncertainty (Figure 3), many interesting avenues of research are opened, not the least of which are investigations into dependencies and the use of power. Mutual dependency makes relational interactions—high vitality relationships or repetitive relationships—more favorable to firms than transactional exchange. However, under conditions of asymmetric dependence, transactions reduce commitments to a shorter time horizon, which still may enable firms to exchange resources successfully. In either case, the patterns of interaction may occur over a significant time horizon; however, the commitments are different. The paper discusses many theoretical springboards for future research: power and resource dependency, political influences, technology, and networks as a governance structure.

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